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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
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----------064450 281214Z /11
P R 281047Z JUN 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC PRIORITY 8513
INFO AMEMBASSY COPENHAGEN
AMEMBASSY STOCKHOLM
AMEMBASSY OSLO
USMISSION USNATO
COMICEDEFOR KEFLAVIK IC
CINCLANT NORFOLK VA
CINCEUR VAIHINGEN GE

C O N F I D E N T I A L SECTION 1 OF 2 REYKJAVIK 0844

E.O. 11652: GDS
TAGS: PINT, IC
SUBJECT: COALITION POSSIBILITIES

REF: A. REYKJAVIK 0835 DTG 261603Z JUN 78
B. REYKJAVIK 0808 DTG 201222Z JUN 78

1. WITH ALTHING ELECTION BEHIND THEM, ICELAND'S FOUR PARTIES WILL NOT BEGIN MANEUVERS LEADING TO CONSTITUTION NEXT GOVERNMENT. THIS MESSAGE DESCRIBEE POSSIBLE COALITIONS THAT COULD RESULT FROM WHAT WILL UNDOUBTEDLY BE INTENSIVE INTER-PARTY NEGOTIATIONS. BECAUSE FOCUS OF ELECTION WAS ON SERIOUS DOMESTIC ECONOMIC PROBLEM COUNTRY FACES AS RESULT RISING INFLATION, WE BELIEVE MOST SENSITIVE ASPECTS OF PARTY TALKS WILL BE ON NATIONAL WAGE-PRICE POLICY TO WHICH NEW GOVERNMENT WILL HAVE TO COMMIT ITSELF. HOWEVER, EXTERNAL RELATIONS, CHIEFLY ICELAND'S COMMITMENT TO NATO AND CONTINUED PRESENCE OF ICELANDIC DEFENSE FORCE (IDF), WILL
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ALSO FIGURE IN TALKS IF ONLY TO EXTENT THAT POTENTIAL PARTNERS MAY "AGREE TO DISAGREE" AND SET THESE ISSUES ASIDE IN INTEREST OF TACKLING WHAT IS CLEARLY UPPER-MOST IN ICELANDIC VOTER'S MIND: DOWNWARD PRESSURE ON HIS STANDARD OF LIVING AND THREAT TO NATIONAL FULL EMPLOYMENT POSTED BY DEPRECIATING KRONUR.

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2. STARTING POINT IS MATHEMATICS OF PROBLEM.
ALTHING HAS 60 SEATS. COALITION NEEDS 32 TO RULE. REASON
IS THAT ON SOME ISSUES ALTHING DIVIDES INTO TWO HOUSES (40 IN
ONE, 20 IN THE OTHER) AND GOVERNMENT NEEDS MAJORITY IN EACH
TO SURVIVE. NEXT POINT IS THAT ITS CONTROL OF 20 SEATS
MAKES INDEPENDENCE PARTY (IP) LOGICAL CANDIDATE
FOR INCLUSION IN ANY COALITION.

3. IN THESE CIRCUMSTANCES, REDISTRIBUTION OF 60
ALTHING SEATS COULD PRODUCE FOLLOWING COALITION
GOVERNMENTS BETWEEN INDEPENDENCE PARTY (IP) - 20
SEATS, PROGRESSIVE PARTY (PP) - 12 SEATS, SOCIAL
DEMOCRATIC PARTY (SDP) - 14 SEATS, AND PEOPLE'S AL-
LIANCE (PA) - 14 SEATS (VOTES EACH COALITION WOULD
HAVE ARE SHOWN IN BRACKETS).
A. IP-PP (32). CONTINUATION OF PRESENT GOVERNMENT
REMAINS POSSIBILITY, DESPITE COALITION'S LOSS OF TEN
OF ITS 42 SEATS. HOWEVER, OPPOSITION OF MANY MEMBERS
OF BOTH IP AND PP TO CONTINUED PARTY COOPERATION EVEN
BEFORE ELECTION WOULD MAKE RECONSTITUTION THIS COALI-
TION DIFFICULT. (THIS WOULD ALSO APPLY TO THREE-
PARTY COALITION WITH THESE TWO PARTIES AND EITHER SDP
OR PA). MOREOVER, IN VIEW LOSSES BOTH PARTIES EXPERI-
ENCED, THEIR JOINT RETURN TO OFFICE WOULD APPEAR TO MANY
AS ATTEMPT TO IGNORE VOTERS' VERDICT. PP CHAIRMAN
OLAFUR JOHANNESSON'S INITIAL REACTION TO ELECTION
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RESULTS IS THAT WINNERS (AMONG WHOM HE DOES NOT
INCLUDE PP) SHOULD NOW BE GIVEN QTE OPPORTUNITY UNQTE
TO SHOW THEY CAN SOLVE COUNTRY'S PROBLEMS.
B. PP-PA-SDP (40). ATTEMPT TO FORM SUCH A
LEFT-OF-CENTER GOVERNMENT WAS MADE FOLLOWING 1974
ELECTIONS. EFFORT COLLAPSED WHEN SDP, WHICH THEN HAD
ONLY FIVE SEATS, REFUSED TO ACCEDE TO OTHER PARTIES'
DEMANDS FOR PHASED WITHDRAWAL OF AMERICAN PERSONNEL
FROM NATO BASE AT KEFLAVIK. NOW THAT SDP IS MUCH
STRONGER AND HAS CLEARLY RESTATED ITS INTENTION TO
CONTINUE NATO BASE PRESENCE, ONLY WAY THIS COALITION
COULD BE FORMED WOULD BE FOR NATO/IDF ISSUE TO BE PUT
ASIDE. ALTHOUGH THIS IS NOT INCONCEIVABLE, FACT
REMAINS THAT SDP AND PA HAVE BEEN TRADING BLOWS IN
RECENT MONTHS ON ECONOMIC AND OTHER ISSUES, (REF B)
AND THERE IS PERSONAL ANIMOSITY BETWEEN SOME
MEMBERS OF THE TWO. MANY IN SDP'S NEW ALTHING
FACTION ARE ON RIGHT WING OF PARTY AND WOULD OBJECT TO
WORKING WITH "COMMUNISTS" OF PA. SOCIAL DEMOCRATS
WOULD ALSO FEEL THAT IN SUCH A COALITION PP, WHICH
WORKED WITH PA IN 1971-74 LEFT GOVERNMENT, WOULD SEEK
TO WORK AGAINST SDP INTERESTS. FINALLY, PP, ALREADY

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RETICENT ABOUT RETURNING TO GOVERNMENT AFTER ELECTION
LOSSES, MIGHT BE RELUCTANT TO BE JUNIOR PARTNER IN
LEFT-OF-CENTER GOVERNMENT.

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C O N F I D E N T I A L SECTION 2 OF 2 REYKJAVIK 0844

C. IP-SDP (34). THIS COALITION, WAS IN OFFICE 1959-71
AND FOR MOST OF THAT TIME WAS RATHER EFFECTIVE AND
POPULAR GOVERNMENT. IP WOULD PROBABLY BE HAPPY TO
RECONSTITUTE THIS COALTION, BUT SDP MAY BE WARY OF
SUCH A REUNION. BECAUSE OF ITS LONG COOPERATION WITH
IP, SDP BEGAN TO LOSE ITS IMAGE AS DISTINCT PARTY
AND ITS IMAGE AS DEMOCRATIC LEFTIST ALTERNATIVE TO
PA. SOME SOCIAL DEMOCRATS, PRIOR TO JUNE 25 ELECTION,
HAD POINTED TO LONG COOPERATION WITH IP AS "BEGINNING
OF THE END" FOR SDP AS EVIDENCED BY ITS DECLINE IN
1974 ELECTIONS TO FIVE ALTHING MEMBERS FROM NINE IT
HELD IN 1959.
D. IP-PA (34). COALITION OF THESE PARTIES ON OPPOSITE
EXTREMES OF POLITICAL SPECTURM NOT AS UNLINELH
AS IT MIGHT SEEM. IT IS ALMOST UNIVERSALLY AGREED
THAT RESTRAINING DEMANDS OF LABOR WOULD GO LONG WAY
TO REDUCE HIGH RATE OF INFLATION, COUNTRY'S MOST
SEVERE DOMESTIC PROBLEM. IP HAS ALMOST NO LEVERAGE
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WITH LABOR AS ILLUSTRATED BY DEFEAT OF ITS
ALTHING MEMBERS WHO ALSO HELD TRADE UNION LEADER-
SHIP POSITIONS. PA, ON OTHER HAND, DOES HAVE GOOD
ACCESS TO LABOR AND SEEMS ANXIOUS TO RETURN TO GOVERN-
MENT. TRADE-OFFS, HOWEVER, WOULD BE DIFFICULT, IP WOULD
CERTAINLY DEMAND THAT PA SET ASIDE ITS ACTIVE OPPOSI-
TION TO NATO BASE. CONFLICTING PARTY POLICIES ON WAGE
INCREASES AND ON REMEDIES FOR INFLATION WOULD ALSO
HAVE TO BE RECONCILED.
E. IP-PA-SDP (48). THIS COALTION, WITH SO LARGE A
BLOC OF ALTHING SEATS, MIGHT BE TOO LARGE TO MANAGE
EFFECTIVELY. IN SUCH GOVERNMENT, SDP WOULD BE FULCRUM
BALANCING LEFT AND RIGHT, AND THIS MAY BE NO-WIN
POSITION THAT MANY IN PARTY WOULD PREFER TO AVOID.
WHILE ADDITION OF SDP TO IP-PA COALTION WOULD MAKE
IT EASIER FOR IP RIGHTISTS TO ACCEPT WORKING WITH
THEIR ENEMIES ON LEFT, IT MIGHT BE
MORE DIFFICULT TO ENTICE PA TO JOIN SUCH A GOVERNMENT
UNLESS IP AND SDP WERE WILLING TO PAY THE PRICE OF
GREATER PA INFLUENCE IN MATTERS OF LABOR, INDUSTRY,
AND DEVELOPMENT POLICY.

4. WITH EXCEPTION OF FOUR-PARTY QTE NATIONAL COALI-
TION UNQTE FOR WHICH THERE IS PRESENTLY NO SENTIMENT,
COMBINATIONS ABOVE ARE ONLY GROUPINGS THAT WOULD
CONSTITUTE MAJORITY IN NEW ALTHING. THERE HAS ALSO BEEN
SPECULATION ABOUT POSSIBILITY OF MINORITY PA-SDP
GOVERNMENT WHICH, WITH 28 SEATS, WOULD NEED TACIT SUP-
PORT FROM OTHER TWO PARTIES IN ORDER TO GOVERN. PP
CHAIRMAN JOHANNESSON HAS INDICATED THAT PROGRESSIVES
WOULD BE WILLING TO ABSTAIN IN ALTHING VOTES IF
SUCH MINORITY COALTION WERE FORMED, BUT MEMBERS OF
IP HAVE INDICATED THAT THEY COULD NOT GO ALONG
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WITH PA-SDP GOVERNMENT. EVEN WITHOUT PROBLEM OF
OUTSIDE SUPPORT, PA AND SDP WOULD FACE CONSIDERABLE
DIFFICULTY (NOTED PARA 3) IN REACHING COALITION AGREEMENT.
BLAKE

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